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September 30, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D.C. 20554

RECEIVED

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Re: Notice of Ex Parte contact
In the Matter of the Application for Consent to the Transfer of Control of
Licenses and Section 214 authorizations from Tele-Communications, Inc. to
AT&T Corp., CS Docket No. 98-178

Dear Ms. Roman Salas:

On Tuesday September 29, 1998, I spoke by phone with Thomas Power, Senior Legal Advisor to Chairman Kennard. During that call, I discussed the benefits of AT&T's proposed acquisition consistent with the views expressed in AT&T's Application in the aforementioned proceeding. In addition, I also expressed AT&T's view that cable companies should not be required to unbundle their facilities.

Two copies of this Notice are being submitted to the secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

James W. Cicconi

cc: Thomas Power

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C. Michael Armstrong
Chairman & CEO, AT&T
Economic Club of Detroit
Detroit, Michigan
September 29, 1998

PLAIN TALK ON THE FUTURE OF TELECOMMUNICATIONS

Thanks, Ed (McNamara), for that kind introduction and welcome home. This city brings back many fond memories. Particularly since my Dad is with me today.

Detroit is a great sports town and I grew up with a loyalty that remains in our family for the Tigers, the Lions and the Red Wings. In fact I was convinced that baseball was my sport, until I met a curve ball --- or rather, regularly missed a curve ball, from a pretty good pitcher named Milt Pappas, who had a terrific major league career.

I was equally convinced at Redford High School that the 100 to 220 in track would be my calling, until a fellow named Carr won everything in town and went on to gold in the Olympics.

But it was football that filled my thoughts, dreams and weight room in the mid 50s. And with scholarship offers, I was convinced my high school girlfriend would be joining me at the university of my choice.

However, her father, a GM executive, had a different outlook. He called me into his living room and advised me that we would not be going to the same university and it was also highly likely that I would end up selling popcorn in Tiger Stadium.

Well, I've been married to that girlfriend for 37 years, my father-in-law became one of my best friends and GM eventually hired me to work at Hughes. In any case, it's always a special privilege to be the guest of the Economic Club of Detroit. This forum is without doubt one of the country's preeminent platforms for public debate, for discussion that sets the agenda for change. For that reason, I am pleased to have the opportunity to speak about an issue that is not only challenging my industry -- but changing our lives. I'm talking about the telecom revolution: the combination of converging technologies and regulatory reform that will change the way we think of such commonplace concepts as

distance and place -- forever.

Of course, high tech debate is often conducted in a language all its own, leaving us to separate the bits and bytes, and RAM from ROM.

My aim today is to engage in plain talk about the future of telecom -- about issues often obscured by technical terms, legal conditions and industry jargon. I would like to describe how (1) AT&T is investing for more consumer choice and value; (2) that there should be a huge consumer tax reduction in our future; and (3) that the merger of Bell monopolies is not in the consumers interest and should be denied.

As an industry, the communications business is booming with innovation, excitement and change.

- Industry growth is projected at 8-10%, 3-4 times the growth of the economy.
- Commerce on the Internet, barely a blip a few years ago, could surpass \$300 billion by 2002.
- Wireless phones have gone from being a novelty to a necessity.

One million Americans sign up for wireless service every month -- not only for convenience, but also for security. In fact, we heard Governor Engler's call to help secure the safety of Michigan's social workers and AT&T will donate 100 wireless phones and free local air time to the Michigan Family Independent Agency.

To give you a sense of how far and how fast technology now penetrates our everyday lives, consider these benchmarks.

It took radio 30 years to reach 50 million people. It took 13 years for TV to do the same. But the World Wide Web reached twice as many users in half the time. Today, more than 100 million of us have logged on to the Internet and experts project 250 million Internet users around the world just four years from now.

What are these technological trend lines telling us at AT&T? Let me start with a tale of two purchases.

A colleague of mine bought a new car recently. For reasons of Detroit diplomacy -- I won't say what he bought, but he did all the things a smart car buyer's supposed to do. He checked out the features. He went over all the options. He shopped around for the best price. And finally he bought the car.

The one thing he didn't do was visit a dealer showroom. At least not until he was ready to pick up the car. Everything else he did over the Internet.

The second purchase I have in mind had a slightly higher sticker price than the one on the window of my colleague's new car. It's AT&T's \$48 billion acquisition of TCI, the nation's second largest cable TV company.

What's the connection between my colleague's new car and AT&T's purchase of TCI? What made both possible was the Internet.

No -- I didn't email my bid to John Malone, or go looking for companies to buy by logging onto MegaMerger.Com. What I mean is that neither that car purchase nor the AT&T/TCI merger would have been possible without something called the Internet Protocol -- or IP. That's the common standard that lets different computer systems, operating systems and software speak to one another electronically.

IP technology means that if a television signal, a phone call and a computer file are all digital, there's no reason to confine them to separate lines. It is literally erasing the boundaries between television sets, telephones and computers. And between those industries.

The IP standard gives the telecom industry a technological freedom that didn't exist just a few years ago. And we'll put it to good use as we team up with TCI.

Consider the way it will help AT&T become the first major long distance carrier to break into the local consumer phone market. Up to now -- and in spite of the best efforts of the regulators and legislators in Washington -- the local phone companies' monopoly has proved hard to break.

How hard? Well, AT&T spent \$3 billion dollars to break into local phone markets. What did we get to show for it?

About half of all consumers who picked an alternative to their local phone company chose AT&T -- a total of over 400,000 customers. Unfortunately, we

could only serve them by "re-selling" the local phone company's service at a wholesale discount that didn't leave much margin for selling, provisioning and service costs -- much less room for price competition. Not too surprisingly, AT&T lost \$3 to \$5 dollars a month on every new local customer.

Luckily for us, the Bells couldn't handle all the switching orders we requested or AT&T would have gone bankrupt.

The moral of that story is -- you can't resell your competitors service, over their plant and equipment, at high prices, with weeks to handle an order. That's one reason we decided to buy TCI -- to give us a way around the local phone company bottleneck.

TCI will give us a path into almost one-third of all American homes. But more than that it will give us the ability to exploit the convergence of TV, PC, and telephone to create a whole new generation of communications, information and entertainment services.

Consider the capabilities a digital cable pipeline will provide the typical family. The cable box on your TV will not only let you order pay per view movies -- it will be a virtual communications center.

When you come home, you can turn on the TV, the PC or the telephone to retrieve all the messages that came in -- e-mail, voice or faxed. Or, if you're on the road, have them read to you over your wireless phone as the network will translate text to voice automatically.

The cable box will also give you access to the Internet at speeds a hundred times faster than today's fastest modems. And it will always be "on." No need to dial up and wait for connectivity.

And the same cable that brings TV and Internet into your home will give you as many telephone lines as you would like: one for Mom and Dad, one for the kids, one for the fax and one for the PC. Each with its own ring. You can take as many lines as you need -- and pay only for what you use. Have a visiting mother-in-law? Point and click to provision another line for her own phone number and message center. Need caller I.D., call waiting or call forwarding? It's packaged on a simple single low cost feature set.

What this local phone capability offers the consumer is:

- a choice of local phone companies
- a choice of local services
- and a choice of local prices.

It's called local competition and within the next two years it will be available to AT&T/TCI consumers.

Bringing competition to local phone service -- where the Bells control 98-plus percent of the market -- was what the Telecom Act of 1996 was all about. But listen to the Bells tell it, and you'd think the entire Telecom Act was about letting them into the long distance market. In actual fact, allowing the Bells to come into the long distance market is their payoff for ending the local Bell monopoly.

The whole idea of the Telecommunications Act was to give consumers the same choice in local phone service that transformed the long distance market more than a decade ago.

There are more than 500 competitors in long distance. That's why long distance prices have come down 55 percent since 1984. It's why demand has skyrocketed. And it's why we're all investing billions of dollars in expanding long distance network capacity.

A future of more competition and more consumer choice for local service is what the Congress intended. It's what the Administration is committed to -- and most important: It's what's best for the Nation.

Unfortunately, that's not what the Regional Bell Companies have in mind.

The Bell Companies are good companies, ably led. But their version of our communications future is very different. It's built not on consumer choice but on extending their local monopoly.

That's why I'm so opposed to the recently proposed mergers between SBC and Ameritech and Bell Atlantic and GTE.

With SBC/Ameritech on one side of the country and the proposed Bell Atlantic/GTE merger on the other, the entire U.S. will end up split down the middle -- into Ma Bell East and Ma Bell West: larger and more powerful monopolies that have already proved that they have no interest in opening their local markets to competition.

In the case of SBC and Ameritech, we have the worst of all worlds: two big companies coming together to advance their monopoly position.

In its territory, SBC commands about 97 percent of the local market, including nearly 100 percent of the consumer market. For Ameritech, the numbers are about the same: 97 percent overall, nearly 100 percent for the consumer segment. Add it together, and that's one giant monopoly that will control local phone access for more than a third of all homes in America -- 55 million phone lines. Ma Bell East -- the proposed combination of Bell Atlantic and GTE -- would control one third more.

The SBC/Ameritech deal isn't one of those mergers with a few anti-competitive edges that can be filed off during the federal approval process. When it comes to mergers between the Bells, we've heard it all before. We heard SBC promise increased competition when it bought Pacific Telesis. It didn't happen. SBC promised more market opening and competition when it announced its purchase of SNET. It didn't happen. We heard Ameritech say it would compete with SBC in St. Louis. Now, SBC wants to buy Ameritech -- instead of expanding competition, these two companies have found a way to expand their monopoly reach and control.

And the Bell monopolies know how to exercise that control. The fees they charge for the privilege of having your long distance call travel through their local network are so far above the cost of putting calls through that they constitute a tax -- a hidden tax levied on consumers, through higher than necessary long distance rates.

How much higher? By most estimates, the real cost of handling a call at the local end runs about 1/2 of a cent a minute. But the local monopolies charge 3 cents a minute for handling long distance calls -- six times higher than cost. And all those extra pennies add up -- to over \$10 billion per year in excess fees: \$10 billion dollars consumers must pay in their long distance prices -- and that long distance carriers, acting as bill collectors for the Bell Companies, have to turn over to them. All because we have neither competition nor regulation taking the subsidies and taxes out of long distance prices.

We ought to be ending excessive local access charges -- not extending a monopoly practice that already costs American consumers and businesses over \$10 billion dollars more than it should a year. We don't need any new laws to give Americans this tax reduction they deserve. We just need the political will to get it done.

Let me make clear, by taking local access charges down to cost, we're not talking about eliminating universal service -- the commitment we have to bringing affordable phone service to rural areas and low income consumers and, to help link schools and libraries to the Internet. What I'm talking about is eliminating the hidden tax every consumer and business customer pays to local phone companies -- every minute of every phone call, every day.

Simply stated, the tax should come off. Monopolies should not be allowed to get bigger. And the market for local phone service should be opened to real competition.

Every consumer will know when there is a competitive local market:

- We will have a choice of local companies.
- We will have a choice of local services.
- We will have a choice of local prices.
- And we will be able to switch local companies and services as quickly as we can switch long distance companies and services.

Until these simple competitive local market conditions exist, there is no consumer basis for monopoly markets to get bigger.

Until the consumer purpose of the Telecom Act of 1996 is a market reality, Washington should not permit more monopoly control over more consumers.

Until America has shed its last bastion of monopoly power, Americans should demand they experience the real freedom of the market for local phone services.

Ladies and Gentlemen, my messages today are threefold:

First, AT&T is investing in cable facilities and advanced technology to bring consumers choice with a breadth of local services at lower prices. It's all about competition.

Second, there is a multi- billion dollar tax reduction due consumers from excess access charges by local phone companies. It's all about political will.

And third, Bell monopoly mergers should be denied, and the local phone market opened, as measured by consumer choice of companies, services, prices and the time it takes to implement your choice. It's all about reality at home, not just rules in Washington.

The telecom revolution is coming, driven forward by the twin forces of technology and customer demand. The question now is whether decision-makers, both public and private, have the wisdom to discern the alternatives, and the will to choose the right path.

Thank you.

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